

MCC and Malawi: Creating Opportunities for Growth

Malawi's \$350.7 million Millennium Challenge Corporation (MCC) Compact is a single-sector program focusing on activities that aim to revitalize Malawi's power sector. By reducing power outages and technical losses, enhancing the sustainability and efficiency of hydropower generation, and improving service to electricity consumers, the compact intends to reduce energy costs to enterprises and households; improve productivity in the agriculture, manufacturing and services sectors; and support the preservation and creation of employment opportunities in the economy.

Power Sector Revitalization Project

The Power Sector Revitalization Project seeks to improve the availability, reliability, and quality of the power supply by increasing the capacity and stability of the national electricity grid and bolstering the efficiency and sustainability of hydropower generation. Project activities to strengthen sector institutions and enhance sector regulation and governance will support an enabling environment for future expansion.

Infrastructure Development Activity (approximately \$283 million)

The Infrastructure Development Activity focuses on the most urgent rehabilitation, upgrade, and modernization needs of the power system. The activity will preserve and stabilize existing generation capacity, improve the capacity of the transmission and distribution network, and increase the efficiency and sustainability of hydropower generation.

The Malawi Government will commit to investing in additional generation capacity by completing the construction of new hydropower generation. The Infrastructure Development Activity also includes a sub-activity addressing environmental and social factors that negatively impact Malawi's hydropower plants.

Power Sector Reform Activity (approximately \$25.7 million)

The Power Sector Reform Activity complements the Infrastructure Development Activity by providing support for the Malawi Government's policy reform agenda and by building capacity in critical

sector institutions. The activity will target entities such as the Electricity Supply Corporation of Malawi (ESCOM), the Malawi Energy Regulatory Authority (MERA), and the Ministry of Natural Resources Energy and the Environment (MNREE) for capacity-building and technical assistance.

Administration

The compact includes approximately \$42 million for project support and administrative costs, including the cost of administration, management, auditing, fiscal and procurement agent services, environmental and social oversight, gender integration, and monitoring and evaluation.

Expected Results

MCC expects the compact to result in the following benefits:

- ★ An estimated million individuals will benefit from the time the compact enters into force through 20 years after the compact term expires through reduced domestic and enterprise energy costs, increased profits, and increased employment income;¹
- ★ An estimated present value of \$2.4 billion in income benefits to Malawi over 25 years;
- ★ An estimated average economic benefit of \$221 in purchasing power parity terms to extremely poor beneficiaries, and of \$291 to poor beneficiaries. An estimated 40 percent of beneficiaries are currently extremely poor; 60 percent are poor.²

These estimated income benefits do not include the full value of improvements to the delivery of health and education services resulting from the increased power supply, and these gains are likely to be important both economically and socially. All projected results depend on complementary investments in generation capacity, as well as successful implementation of the infrastructure investments, sustained turnaround of the Electricity Supply Corporation of Malawi, and realization of power sector reforms.

¹ Malawi's current population is estimated at 13.6 million, and is projected to be 24 million 20 years after the compact term expires.

² "Extremely poor" is defined as living on the equivalent amount in 2010 of less than U.S. \$1.25 per day (2005 purchasing power parity (PPP)-adjusted dollars), and "poor" is defined as living on less than U.S. \$2.00 per day (2005 PPP-adjusted dollars).